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Brazil

LOCK-UP REPORT

Quarterly Grains Report

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Report Highlights:

Post estimates 2009/10 corn production will remain flat at 51 million metric tons (mmt). Higher average yields are expected to offset a decrease in summer crop area planted. Post reduces its TY 2008/09 corn export forecast to 7.2 mmt due to weak export demand, increased worldwide supply, and a strengthening local currency.

Wheat production for 2009/10 is revised downward to 5 mmt as intense rains in key production states caused yields to drop. Wheat quality has deteriorated significantly resulting in an estimated 1.5-2 mmt deemed feed quality. There are potential 2009/10 non-Mercosul imports of up to 3 mmt. Brazil will seek imports of bread-quality wheat and to a lesser extent wheat for pasta.

Post lowers its 2009/10 rice production to 8.5 mmt (milled basis) as rice area planted and yields dip slightly. Rice imports are raised to 750,000 due to a strong local currency and reduced production.

Post: Commodities:

Brasilia Corn

Wheat

Rice, Milled

Executive Summary:

Author Defined:

CORN

PRODUCTION

Production in 2009/10 Flat In Spite of Decrease in Area Planted

Post estimates 2009/10 corn production will remain flat at 51 million metric tons (mmt). Higher average yields are expected to offset a 7 percent decrease in summer crop area planted. In addition, safrinha area planted is forecast to remain at 4.9 million hectares. The strong Brazilian currency is squeezing profit margins by reducing the value of exports for farmers; however, the cost of their inputs has dropped by 30 percent compared with last year.

Summer Crop 2009/10 Area Planted Drops 7 Percent as Farmers Shift to Soy

The area planted for the summer crop is expected to decrease from 9.25 million hectares to 8.5 million hectares. A lower expected profit margin for corn compared to soybeans at harvest has encouraged a significant shift from corn to soybeans, particularly in the South. Contributing to the expected profit margin is a 30 percent lower production cost for soybeans compared to corn. Another factor encouraging the shift is that corn is a riskier crop than soybeans due to its more stringent moisture requirements. This factor resonates with farmers in the State of Parana who last year suffered significant corn yield losses due to drought conditions. Other factors contributing to a lower planted area are the current high corn stocks, internal prices below the government minimum price, projected record U.S. corn harvest and anticipated recovery in Argentina.

Corn yields are projected to rebound from last year's drought-reduced level and with greater use of

technology and inputs. In addition, the movement from corn to soybeans may result in higher average yields for corn since the high-technology producers will continue to plant corn while the low-technology producers will switch to soybeans. Finally, greater use of genetically-engineered (GE) seed should boost yields.

Brazil now has a total of nine GE corn varieties approved for commercial production, including a number of double stacked varieties which are resistant to both pests and herbicides. It's estimated that about one-half of the 2009/10 corn crop will be GE, with adoption in the South reaching 55 percent. As a result, producers are expecting to achieve yield gains of 8-10 percent. Considering that the 2008/09 growing season was the first year when GE corn seed could officially be sold in Brazil, the rate of adoption of biotechnology has been rapid.

Parana's Summer Crop Area Planted Projected to Be Lowest Since 1970s

Parana, the country's top corn producing state, is a prime example of this shift of area planted from corn to soybeans. In Parana, corn planting is estimated at 995,000 hectares down 20 percent from 2008/09 area planted of 1.27 million. In contrast, the estimated 2009/10 planted area for soy is 4.3 million hectares up from 4.07 million in 2008/09.

Safrinha 2009/10 Area Planted Expected to be Stable

Good weather in the Center-West allowed earlier planting of soybeans which means farmers will have sufficient time to plant the safrinha corn crop. The early rains increase the availability of area ready for planting next February.

Exports

Reduction in Forecast for 2008/09 Corn Exports

Post lowers its TY 2008/09 export forecast to 7.2 mmt due to weak export demand, increased worldwide supply, and a strengthening local currency.

Currently, international prices for corn are well below the government minimum price. The international price and minimum price in Brazilian currency continue to diverge as the Brazilian Real continues to strengthen. Contacts estimate that the Government of Brazil is using mechanisms to provide subsidies of about US\$30-40/ton. Government corn purchases are expected to reach 4-4.5 mmt, the majority destined for the export market.

Corn Exports January-September 2009

Country	Exports (mt)
Iran	1096
Colombia	483
South Korea	469
Malaysia	432
Saudi Arabia	408

Brazil continues to export corn more to the Middle East, South America and Central Asia than to its traditional EU market. Iran now accounts for about one-fourth of total Brazilian corn exports. Brazil has been able to capitalize on its freight advantage exporting to Malaysia, its fourth largest market, and Taiwan, its sixth largest market. To these and other markets, Brazil can trade via Panamax vessels that reduce transport costs.

Corn - Brazil	2008		2009	
	2008/2009		2009/2010	
	Market Year Begin: Mar 2009		Market Year Begin: Mar 2010	
	USDA Official Data	Post Data	USDA Official Data	Post Data
Area Harvested	14,100	14,100	13,500	13,500
Beginning Stocks	12,579	12,559	12,379	12,459
Production	51,000	51,000	52,000	51,000
MY Imports	800	1,000	500	600
TY Imports	1,000	1,000	500	600
TY Imp. from U.S.	0	0	0	0
Total Supply	64,379	64,559	64,879	64,059
MY Exports	7,500	7,600	9,000	8,500
TY Exports	7,200	7,200	9,500	8,500
Feed Consumption	37,000	37,000	38,500	38,500
FSI Consumption	7,500	7,500	7,000	7,000
Total Consumption	44,500	44,500	45,500	45,500
Ending Stocks	12,379	12,459	10,379	10,059
Total Distribution	64,379	64,559	64,879	64,059
Yield	4.	3.617	4.	3.7778

WHEAT

Production

Intense Rains in Key Producing States Reduce Wheat Yield and Quality

Post now forecasts Brazil's 2009/10 wheat production at 5 million metric tons (mmt), 17 percent below last year's 6 mmt crop. Adverse weather conditions in key production states – Rio Grande do Sul and Parana – caused yields to diminish drastically from 2.48 tons per hectare to an estimated 1.84. Quality deteriorated significantly resulting in an estimated 1.5-2 mmt deemed feed quality. Furthermore, if the Southern weather continues to be humid in November the amount of damaged/low quality wheat could reach 2.5 mmt.

Parana, the country's largest wheat producing state, has suffered significant production losses as production estimates have fallen to 2.8 mmt, down 20 percent from initial estimates of 3.5 mmt. Losses were greatest in the northern part of the state which had planted first. After receiving almost four times more rain than normal, the region reported a 40 percent drop in production. Overall, the state's 244 mm of rainfall measured in July (the highest since 1976) followed by continued rain in both August and September, have led to record high cumulative precipitation.

The moist environment increased the prevalence of fungal diseases. There have been numerous reports of brusone caused by the fungus *Pyricularia grisea* and *gibberella*. While almost 30 percent of the farms in the state needed chemical control for protection during the vulnerable flowering and grain-filling phases, the excessive rain and the intensity of the disease outbreak made disease management difficult leading to severe yield losses. These diseases have dramatically reduced the quality of the wheat and yields.

It is estimated that only 2 mmt of Parana's 2.8 mmt of wheat will be milling quality. A portion of the residual 800,000 mt of wheat will be blended with milling quality wheat and another portion will be destined for export markets, mostly likely using government subsidy mechanisms to move product. If the high level of humidity persists, there is a risk that the post-harvest wheat could be affected by disease and pests adding to yield losses and reduced the grain quality.

Rio Grande do Sul, the country's second largest wheat producing state, has also received excessive rain. However, unlike Parana which has completed harvesting, Rio Grande do Sul will not harvest until November, so it is too early to estimate the full extent of the damage.

Imports

Potential Non-Mercosul Imports of up to 3 mmt in 2009/10

Estimates of the need for wheat sourced from outside Mercosul range from 2mmt up to 3mmt. Brazil

normally imports more than 90 percent of its wheat from Argentina, followed by Uruguay and Paraguay. However, given an estimated below-average Argentine crop and with Paraguay's crop suffering a similar fate to Brazil's due to excessive rains, traders will look to the United States and Canada. Paraguay's production is forecast to fall to 900,000 tons and only 40 percent of the wheat being milling quality making it unlikely to ship significant volume in 2009/10.

Brazil's demand for imported bread-quality wheat and to a lesser extent wheat for pasta production should increase due to the degraded domestic crop. In addition, flour imports from Argentina are expected to fall and result in higher milling usage in Brazil..

Wheat Imports HTS 1001 (000s)

Country	Jan-Sept 2008	Jan-Sept 2009
Argentina	3103	2474
Uruguay	91	718
Paraguay	380	608
Canada	273	248
United States	874	135
Total	4720	4184

Flour Imports HTS 1101 (000s)

Wheat Equivalent (conversion rate 1.368)

Country	Jan-Sept 2008	Jan-Sept 2009
Argentina	680	637
Uruguay	42	36
Total	722	673

Non-Automatic Import Licenses for Argentine Flour

Since 2002, Brazilian wheat millers have had to contend with competition from Argentine flour primarily as a result of the Argentine differential export taxes. The difference between the export tax for grain (20 percent) and flour/pre-mix (10 percent) has led to a dramatic increase in the amount of flour shipped to Brazil, both in absolute quantity and as a percentage of total wheat shipments. Since October 14, 2009, the GOB has determined that import licenses for Argentine flour will no longer be automatic. An estimated 10,000 mt of wheat flour is stalled at the border waiting for permits. Industry officials have expressed concern that while it used to take only 48 hours to receive an import license, now it may take up to 60 days.

Common External Tariff

Wheat sourced from outside Mercosul faces a 10 percent Common External Tariff (CET). Although in September the Brazilian Minister of Agriculture requested the CET be raised to 35 percent, the Government of Brazil (GOB) decided to maintain the tariff at 10 percent. The government did note that it will monitor sales and if there is an excess supply in the domestic market, the government may reconsider. However, as estimates of domestic wheat production and quality continue to slide, the likelihood decreases that the GOB will raise the CET to 35 percent.

There is renewed speculation that the GOB may consider temporarily lifting the CET, given Brazil's need to source outside of Mercosul. On one hand, lifting the CET would help control inflation. On the other hand, Argentine and Uruguayan exports should supply Brazil until April, leaving the GOB to determine whether to lift the CET at the same time domestic producers are deciding planting intentions. If the CET is lowered in the second quarter, there may be concern that domestic production will not be sufficiently stimulated. An additional element that may affect the decision is the fact that 2010 is a presidential election year.

Wheat Export Quotas

There have been reports that the United States and Canada have requested wheat export quotas. However, when asked, a Brazilian government official noted that there are no negotiations on a quota regime in lieu of import tariffs at this time.

Government Mechanisms

It is expected that due to pressure from producers and cooperatives, the government will issue subsidies (through auctions) to commercialize much of the estimated 1.5 mmt of feed wheat. The subsidies will have to be sufficient to allow the wheat to compete on the international market as it will not all be absorbed by local demand from the poultry industry. The international market for feed wheat is around USD130 mt FOB origin. So, the subsidy amount will be the difference between the market price and the government support price (USD277 per mt).

The GOB announced on October 22, 2009, that it will auction 700,000 tons of wheat through the Premio de Escoamento de Produto (PEP) program. This program provides the minimum guaranteed price to producers and cooperatives by paying the difference between the minimum guaranteed price and the market price. The objective is to supplement the supply of commodities in areas of the country considered to be deficient in agricultural production, such as the Northeast of Brazil.

The government does not have the obligation to provide the minimum price if the quality of the wheat is below a test weight of ph78. Sources note that the government is already refusing to pay the support price.

Wheat - Brazil	2008		2009	
	2008/2009		2009/2010	
	Market Year Begin: Oct 2008		Market Year Begin: Oct 2009	
	USDA Official Data	Post Data	USDA Official Data	Post Data
Area Harvested	2,420	2,420	2,400	2,450
Beginning Stocks	447	660	1,347	1,590
Production	6,000	6,000	4,500	5,000
MY Imports	6,000	6,200	6,500	6,500
TY Imports	6,367	6,557	6,500	6,500
TY Imp. from U.S.	0	769	0	0
Total Supply	12,447	12,860	12,347	13,090
MY Exports	400	370	400	800
TY Exports	369	400	400	800
Feed Consumption	200	300	700	700
FSI Consumption	10,500	10,600	10,700	10,700
Total Consumption	10,700	10,900	11,400	11,400
Ending Stocks	1,347	1,590	547	890
Total Distribution	12,447	12,860	12,347	13,090

Rice

Production

Slight Drop in Rice Area Planted and Yields

Post lowers its 2009/10 rice production to 8.5 mmt (milled basis) as rice area planted and yields dip slightly from last year's bumper crop of 8.6 mmt. Area planted is expected to be reduced slightly as producers substitute rice for soy particularly in the upland rice-growing areas of the Center-West. Average national yields are also forecast to return to more historic levels of 4.2 kg/hectare. The 2008/09 crop saw record yields due to near-perfect weather conditions.

Early rains in State of Rio Grande do Sul, accounting for 60 percent of Brazil's rice production, have had a mixed impact on rice production there. Spring rains have replenished drought-stricken soil moisture levels. In addition, the spring rains have provided much needed water to the dams and rivers, a vital input for irrigation. However, the rains have also delayed planting. Currently, only 10 percent of Rio Grande do Sul's rice area has been planted versus last year's 35 percent. The delayed planted could result in lower yields.

Rice, Milled - Brazil	2008		2009	
	2008/2009		2009/2010	
	Market Year Begin: Apr 2009		Market Year Begin: Apr 2010	
	USDA Official Data	Post Data	USDA Official Data	Post Data
Area Harvested	2,900	2,910	2,920	2,900
Beginning Stocks	973	973	933	943
Milled Production	8,595	8,600	8,840	8,500
Rough Production	12,640	12,647	13,000	12,500
Milling Rate (.9999)	6,800	6,800	6,800	6,800
MY Imports	470	470	600	750
TY Imports	470	470	650	750
TY Imp. from U.S.	0	0	0	0
Total Supply	10,038	10,043	10,373	10,193
MY Exports	450	450	450	400
TY Exports	450	450	400	400
Total Consumption	8,655	8,650	8,840	8,750
Ending Stocks	933	943	1,083	1,043
Total Distribution	10,038	10,043	10,373	10,193
Yield (Rough)	4.	4.346	4.	4.3103